

**COTTONWOOD HEIGHTS PARKS AND RECREATION
SERVICE AREA**

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORTS THEREON

DECEMBER 31, 2005

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-7
FINANCIAL STATEMENTS:	
BALANCE SHEET	8
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	9
STATEMENT OF CASH FLOWS	10-11
NOTES TO FINANCIAL STATEMENTS	12-21
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	22
INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE	23



PINNOCK, ROBBINS, POSEY & RICHINS

Certified Public Accountants • A Professional Corporation

Ronald D. Robbins, CPA
David T. Posey, CPA
Ruger O. Richins, CPA
James R. Beaudoin, PFS, CFP, CPA
Wade K. Watkins, CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Cottonwood Heights Parks and Recreation Service Area

We have audited the financial statements of Cottonwood Heights Parks and Recreation Service Area (the Service Area) as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Service Area's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cottonwood Heights Parks and Recreation Service Area as of December 31, 2005, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2006, on our consideration of Cottonwood Heights Parks and Recreation Service Area's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion thereon.

Pinnock, Robbins, Posey & Richins

March 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Cottonwood Heights Parks and Recreation Service Area's (the Service Area) annual financial report presents our analysis of the Service Area's financial performance during the year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes to enhance their understanding of the Service Area's financial activities.

Financial Highlights:

- Membership revenue increased approximately 7% as a result of our focus on advertising.
- Revenue for admissions increased in the ice arena 24%, greatly assisted by an Olympic year and the filming of a movie at the Service Area.
- Utility increases were a result of the following: Questar average rate increased by 36%. Utah Power & Light's rate increase was minimal (.003%), but usage was up 5%. Sanitation experienced a 10% increase because of the need for more garbage cans and a rate increase.
- The Service Area entered into a five year lease to lease new weight room equipment for \$55,000.
- The foundation received \$20,000 more in contributions in 2005 from new sponsors.
- Total assets decreased due largely to depreciation. Other factors consisted of less inventory on hand at December 31, 2005, the disposition of certain fixed assets, and the fact that we have no prepaid insurance in 2005. Additionally, we had less cash in the bank as of December 31, 2005.
- The Service Area issued general obligation refunding bonds in the amount of \$2,390,000.

Overview of Financial Report:

This annual report consists of two parts: Management's Discussion and Analysis (MD&A) and the Financial Statements. The Financial Statements include notes that explain in more detail some of the information in the financial statements.

Management's Discussion and Analysis serves as an introduction to the basic financial statements. The MD&A represents management's analysis of the Service Area's financial condition and performance.

The financial statements report information about the Service Area using the accrual basis of accounting. They include a balance sheet; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the Service Area, while the statement of revenues, expenses and changes in net assets presents the results of business activities over the course of the year and provides information as to how the net assets changed during the year. The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, capital and non-capital financing, and investing activities. The notes to the financial statements provide required disclosures and other information that are essential to the full understanding of material data provided in the statements.

Financial Analysis:

To begin our analysis, a condensed version of the Service Area's balance sheet as of December 31, 2005 is presented in the schedule below, with comparative information for 2004.

Cottonwood Heights Parks and Recreation Service Area Condensed Balance Sheet

	2005	2004 as restated
ASSETS:		
Other assets	\$ 1,201,226	\$ 1,477,214
Capital assets, net of accumulated depreciation	<u>7,260,168</u>	<u>8,144,327</u>
Total Assets	<u>\$ 8,461,394</u>	<u>\$ 9,621,541</u>
LIABILITIES:		
Other liabilities	\$ 1,020,270	\$ 862,151
Long-term liabilities	<u>5,414,352</u>	<u>6,069,046</u>
Total Liabilities	<u>6,434,622</u>	<u>6,931,197</u>
NET ASSETS:		
Invested in capital assets, net of related debt	1,312,464	1,634,327
Restricted for foundation	48,061	27,752
Unrestricted net assets	<u>666,247</u>	<u>1,028,265</u>
Total Net Assets	<u>2,026,772</u>	<u>2,690,344</u>
Total Liabilities and Net Assets	<u>\$ 8,461,394</u>	<u>\$ 9,621,541</u>

The balance sheet includes all of the Service Area's assets and liabilities, and net assets which is categorized as either invested in capital assets, net of related debt; restricted, or unrestricted. Net assets may serve as a useful indicator of a government's financial position. Assets exceeded liabilities by \$2,026,772 as of December 31, 2005. The largest portion of the Service Area's net assets, \$1,312,464, reflects its investment in capital assets (e.g., land, buildings, improvements and equipment), net of related debt incurred to acquire these assets. The Service Area uses these capital assets in its daily operations; consequently, they are not available for future spending. Unrestricted net assets decreased from \$1,028,265 in 2004 to \$666,247 as of December 31, 2005.

While the balance sheet shows the financial position of the Service Area at December 31, 2005, the Condensed Statement of Revenues, Expenses and Changes in Net Assets provides information regarding the nature and source of the changes in net assets. Net assets decreased in 2005 by \$663,572 as a result of an operating loss of \$2,281,854, which includes \$975,410 in depreciation expense. This operating loss is partially offset by non-operating income of \$1,618,282, primarily consisting of property taxes.

A condensed version of the Service Area's Statement of Revenues, Expenses, and Changes in Net Assets is presented on the attached schedule below.

Cottonwood Heights Parks and Recreation Service Area
Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	<u>2005</u>	<u>2004</u>
PROGRAM REVENUES:		
Charges for services	\$ 1,424,377	\$ 1,386,205
Membership fees	726,571	681,326
Other operating revenues	<u>51,827</u>	<u>52,862</u>
Total Program Revenues	<u>2,202,775</u>	<u>2,120,393</u>
GENERAL REVENUES:		
Property taxes	1,873,292	1,867,281
Other general revenues	<u>72,612</u>	<u>49,809</u>
Total General Revenues	<u>1,945,904</u>	<u>1,917,090</u>
TOTAL REVENUES	<u>4,148,679</u>	<u>4,037,483</u>
EXPENSES:		
Personal services	2,393,803	2,319,643
Depreciation	975,410	980,621
Other expenses	<u>1,443,038</u>	<u>1,367,535</u>
Total expenses	<u>4,812,251</u>	<u>4,667,799</u>
(Decrease) in Net Assets	<u>(663,572)</u>	<u>(630,316)</u>
NET ASSETS - BEGINNING	2,638,762	2,589,828
PRIOR PERIOD ADJUSTMENTS	<u>51,582</u>	<u>679,250</u>
NET ASSETS - BEGINNING AS RESTATED	<u>2,690,344</u>	<u>3,269,078</u>
NET ASSETS - ENDING AS RESTATED	<u>\$ 2,026,772</u>	<u>\$ 2,638,762</u>

Capital Assets:

Net capital assets decreased by \$884,159 from the prior year, to \$7,260,168 at December 31, 2005. Capital assets acquired for the year amounted to \$123,191, consisting of equipment.

Capital Assets, Net of Depreciation

	<u>2005</u>	<u>2004</u>
Capital assets not being depreciated:		
Land	\$ 606,996	\$ 606,996
Construction-in-progress	<u>—</u>	<u>31,940</u>
Total capital assets not being depreciated	<u>606,996</u>	<u>638,936</u>
Capital assets being depreciated:		
Buildings	4,709,996	4,709,996
Improvements other than buildings	12,690,112	12,690,112
Equipment	<u>895,955</u>	<u>772,764</u>
Total capital assets being depreciated	<u>18,296,063</u>	<u>18,172,872</u>

Capital Assets, Net of Depreciation (continued)

	<u>2005</u>	<u>2004</u>
Less accumulated depreciation for:		
Buildings	\$(2,525,905)	\$(2,305,473)
Improvements other than buildings	(8,424,623)	(7,731,036)
Equipment	<u>(692,363)</u>	<u>(630,972)</u>
Total accumulated depreciation	<u>(11,642,891)</u>	<u>(10,667,481)</u>
Total capital assets being depreciated, net	<u>6,653,172</u>	<u>7,505,391</u>
Total capital assets, net	<u>\$ 7,260,168</u>	<u>\$ 8,144,327</u>

Long-Term Debt:

General obligation bonds payable decreased \$458,607 from the prior year, to \$5,903,863 at December 31, 2005, resulting from the partial refunding of the General obligation bonds, Series 2000, and principal payments of \$520,000 made throughout the year. General obligation bonds payable consists of \$520,000 reported as General obligation bonds payable – current, and \$5,383,863 reported as General obligation bonds payable (net of unamortized discounts). Interest and fiscal charges of \$295,682 were incurred during 2005.

Economic Outlook:

Cottonwood Heights Parks and Recreation Service Area, created in 1967, has never raised its tax rate for operations and maintenance. In reviewing the current financial status of the Service Area it becomes apparent that this may become a necessity if the Service Area is to keep up with inflation. The Service Area currently has \$666,247 in unrestricted net assets. For the past few years this has been declining annually, consistent with a budgeted use of net assets. The Service Area has in place a policy that requires it to always maintain net assets of at least \$350,000. With an aging facility, there are some major repairs that need to be done to the infrastructure. The Service Area is looking at three options to fund these repairs:

- Use current operations and maintenance budget
- Issue general obligation bonds
- Apply to Salt Lake County for a contribution from the Zoo, Arts and Parks tax.

The Board of Trustees and Management of the Service Area strive at all times to maintain the facilities and programs in an optimum condition while at the same time keeping costs and taxes low.

COTTONWOOD HEIGHTS PARKS AND RECREATION SERVICE AREA

BALANCE SHEET

DECEMBER 31, 2005

ASSETS

CURRENT ASSETS:

Cash and cash equivalents:

Unrestricted

\$ 872,752

Restricted

48,061

Receivables:

Property taxes

54,582

Due from other governments

55,039

Inventory

9,509

TOTAL CURRENT ASSETS

1,039,943

**CAPITAL ASSETS, NET OF
ACCUMULATED DEPRECIATION**

7,260,168

OTHER ASSETS:

Deposits

2,799

Deferred bond issuance costs, net

94,325

Net cash value of life insurance

64,159

TOTAL OTHER ASSETS

161,283

TOTAL ASSETS

\$8,461,394

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable – trade

\$ 116,380

Accrued interest payable

66,536

Accrued payroll

48,827

Accrued vacation and sick leave

184,468

Other accrued liabilities

10,357

Capital lease payable – current

13,352

General obligation bonds payable – current

520,000

Deferred revenue

60,350

TOTAL CURRENT LIABILITIES

1,020,270

Capital lease payable

30,489

General obligation bonds payable (net of unamortized discounts)

5,383,863

5,414,352

TOTAL LIABILITIES

6,434,622

NET ASSETS:

Invested in capital assets, net of related debt

1,312,464

Restricted for foundation

48,061

Unrestricted

666,247

TOTAL NET ASSETS

2,026,772

TOTAL LIABILITIES AND NET ASSETS

\$8,461,394

See accompanying notes to financial statements.

COTTONWOOD HEIGHTS PARKS AND RECREATION SERVICE AREA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS**

YEAR ENDED DECEMBER 31, 2005

OPERATING REVENUES:

Charges for services	\$ 1,424,377
Membership fees	726,571
Other operating revenues	<u>51,827</u>

TOTAL OPERATING REVENUES 2,202,775

OPERATING EXPENSES:

Personal services	2,393,803
Depreciation	975,410
Maintenance and supplies	368,263
Utilities	375,749
Contractual services	131,803
Other	<u>239,601</u>

TOTAL OPERATING EXPENSES 4,484,629

OPERATING (LOSS) (2,281,854)

NON-OPERATING REVENUES (EXPENSES):

Property taxes	1,873,292
Interest income	11,710
(Loss) on disposition of assets	(31,940)
Donations	60,902
Interest and fiscal charges	<u>(295,682)</u>

TOTAL NON-OPERATING REVENUE 1,618,282

CHANGE IN NET ASSETS (663,572)

NET ASSETS – BEGINNING AS PREVIOUSLY REPORTED	2,638,762
Prior period adjustments (note 2)	<u>51,582</u>

NET ASSETS - BEGINNING AS RESTATED 2,690,344

NET ASSETS - ENDING \$ 2,026,772

COTTONWOOD HEIGHTS PARKS AND RECREATION SERVICE AREA

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and members	\$ 2,140,977
Payments to suppliers	(1,018,056)
Payments to employees	<u>(2,373,078)</u>
NET CASH (USED IN) OPERATING ACTIVITIES	<u>(1,250,157)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Property taxes	1,873,287
Donations	<u>60,902</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>1,934,189</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of capital assets	(67,647)
Interest paid on capital debt	(250,568)
Proceeds from the issuance of bonds payable	2,382,150
Principal payments on capital debt	(2,847,172)
Principal payments on capital lease	(11,703)
Payment of bond costs	<u>(54,979)</u>
NET CASH (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(849,919)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	<u>11,710</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>11,710</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(154,177)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,074,990</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 920,813</u>
CASH APPEARS ON THE BALANCE SHEET AS FOLLOWS:	
Cash and cash equivalents - unrestricted	\$ 872,752
Cash and cash equivalents - restricted	<u>48,061</u>
	<u>\$ 920,813</u>

COTTONWOOD HEIGHT PARKS AND RECREATION SERVICE AREA

STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED DECEMBER 31, 2005

**RECONCILIATION OF OPERATING (LOSS) TO NET CASH
(USED IN) OPERATING ACTIVITIES:**

Operating (loss)	\$(2,281,854)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Depreciation	975,410
Amortization	11,075
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Due from other governments	(1,798)
Inventory	3,917
Prepaid expenses	48,840
Net cash value of life insurance	2,124
Increase (decrease) in:	
Accounts payable - trade	34,269
Accrued vacation and sick leave	9,714
Accrued payroll	8,887
Other accrued liabilities	(741)
Deferred revenue	<u>(60,000)</u>

NET CASH (USED IN) OPERATING ACTIVITIES

\$(1,250,157)

NON CASH CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital assets acquired under capital lease	<u>\$ 55,544</u>
Amortization of bond discount	<u>\$ 785</u>
Amortization of deferred loss on advanced refunding of bonds	<u>\$ 56,843</u>

COTTONWOOD HEIGHTS PARKS AND RECREATION SERVICE AREA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Cottonwood Heights Parks and Recreation Service Area (the Service Area), formerly known as Salt Lake County Service Area Number Two, was established in 1967 under the County Service Area Act of the State of Utah. The Service Area is governed by a Board of Trustees comprised of three elected members each serving four year terms. Administrative, financial, and budgetary responsibilities are vested in the Service Area's director who is a full time employee of the Service Area. The Service Area provides a variety of recreational opportunities and facilities to residents of the Service Area.

Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the government. The Service Area has no discretely presented component units and is itself not a component unit of any other entity. Each blended component unit has a December 31 year end.

Blended Component Units

The Cottonwood Heights Recreation Center Foundation, a not-for-profit corporation, was created by the Service Area in 1989 for the purpose of receiving tax-exempt charitable contributions, within the meaning of Section 501(c)(3) of the Internal Revenue code. The foundation is governed by an elected Board of Trustees. Because the Foundation's governing body is the same as the Service Area's the financial data is included in the reporting entity using the blended method.

Complete financial statements for the component unit may be obtained at the Service Area's administrative offices.

Cottonwood Heights Parks & Recreation Service Area
7500 South 2700 East
Salt Lake City, UT 84121

The accounting policies of the Service Area conform to generally accepted accounting principles as applicable to governmental units and are in accordance with established State of Utah legal restrictions as promulgated in the Fiscal Procedures Act. The following is a summary of the more significant accounting policies.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Service Area's operations are accounted for within an enterprise fund. The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

COTTONWOOD HEIGHTS PARKS AND RECREATION SERVICE AREA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Service Area are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Property Taxes

Property taxes are assessed, levied, and collected by the county governments in the State of Utah. Property taxes become a lien on January 1 and are levied on the first Monday of August. Taxes are due and payable on November 1 and delinquent after November 30 of each year. Taxes on an individual piece of property may be delinquent up to five years before the property is sold for delinquent taxes.

Under state statute, the County Treasurer, acting as a tax collector, must settle and disburse all current tax collections to all taxing units by the end of March following the taxing year. Delinquent taxes are collected throughout the year and disbursed to the taxing units on a routine basis.

D. Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of items held for resale.

E. Capital Assets

Capital assets are stated at cost. Depreciation is provided using the straight-line method over estimated useful lives ranging from 2 to 40 years for buildings and building improvements, 2 to 35 years for improvements other than buildings, and 2 to 10 years for equipment.

F. Vacation and Sick Leave

Service Area employees are granted vacation and sick leave in varying amounts. No more than 80 days of vacation can be carried over to the next year. Twenty-five percent of accrued sick leave will

COTTONWOOD HEIGHTS PARKS AND RECREATION SERVICE AREA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Vacation and Sick Leave (continued)

be paid upon voluntary retirement to employees with five or more years of service. The cost of vacation and sick leave is recorded as a liability when earned.

G. Cash Equivalents

For purposes of the statement of cash flows, the Service Area considers all investments with original maturities of three months or less to be cash equivalents. The Public Treasurer's Investment Fund is considered a cash equivalent since it is readily accessible by the Service Area.

2. PRIOR PERIOD ADJUSTMENTS

In 2005, several life insurance policies were identified in which cash surrender values were not properly recognized in the prior financial statements. These policies are held, with the Service Area listed as beneficiary, to assist the funding of the liability incurred under the deferred compensation plan discussed in Note 12. As of December 31, 2005, the combined cash surrender values of these policies amounted to \$127,509. In order to properly reflect net assets as of the beginning of the fiscal year, a prior period adjustment to beginning net assets has been made in this amount.

In prior years, the deferred loss on the advanced refunding of 1994 series general obligation bonds was reported as bond costs and has been amortized using the straight-line method over the life of the refunding bonds. As of December 31, 2005, unamortized amounts relating to this loss have been properly reclassified and netted against the outstanding principal on long-term debt. Additionally, amortization of the loss has been adjusted to reflect the effective interest method of amortization, resulting in an adjustment to net assets as of December 31, 2004 of \$75,927.

As a result of these prior period adjustments, the following restatement was made to beginning net asset accounts:

NET ASSETS – BEGINNING AS PREVIOUSLY REPORTED	\$ 2,638,762
Cash surrender value of life insurance policies	127,509
Effective interest method of amortization	<u>(75,927)</u>
NET ASSETS – BEGINNING AS RESTATED	<u>\$ 2,690,344</u>

3. DEPOSITS AND INVESTMENTS

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Service Area follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Service Area funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

COTTONWOOD HEIGHTS PARKS AND RECREATION SERVICE AREA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. DEPOSITS AND INVESTMENTS (CONTINUED)

a. Deposits

	<u>Bank Balances</u>	<u>Book Balances</u>
Cash on hand	\$ —	\$ 2,200
Cash on deposit	<u>133,067</u>	<u>135,227</u>
TOTAL	<u>\$ 133,067</u>	<u>\$ 137,427</u>

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a bank failure, the Service Area's deposits may not be returned to it. The Service Area does not have a formal deposit policy for custodial credit risk. As of December 31, 2005, none of the Service Area's bank balances were uninsured and uncollateralized.

b. Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the Service Area and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Service Area to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury, including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "a" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses-net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

COTTONWOOD HEIGHTS PARKS AND RECREATION SERVICE AREA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. DEPOSITS AND INVESTMENTS (CONTINUED)

As of December 31, 2005, the Service Area had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
State of Utah Public Treasurer's Investment Fund	\$ 783,386	\$ 783,386	\$ —	\$ —	\$ —
	<u>\$ 783,386</u>	<u>\$ 783,386</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Service Area's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Service Area's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed. As of December 31, 2005, the Service Area's investments in the State of Utah Public Treasurer's Investment Fund were unrated.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Service Area's policy for reducing the risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5%-10% depending upon total dollar amount held in the portfolio.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Service Area will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Service Area does not have a formal policy for custodial credit risk.

4. DUE FROM OTHER GOVERNMENTS

Due from other governments primarily consists of amounts due from Jordan School District in connection with the use of the Service Area's indoor swimming pool for school classes, and their share of certain improvements. Jordan School District pays the Service Area for pool use based upon a school year. Such amount represents an estimate of additional amounts due from the school district through December 31, 2005.

COTTONWOOD HEIGHTS PARKS AND RECREATION SERVICE AREA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 606,996	\$ -	\$ -	\$ 606,996
Construction-in-progress	31,940	-	(31,940)	-
Total capital assets, not being depreciated	<u>638,936</u>	<u>-</u>	<u>(31,940)</u>	<u>606,996</u>
Capital assets, being depreciated:				
Buildings	4,709,996	-	-	4,709,996
Improvements other than buildings	12,690,112	-	-	12,690,112
Equipment	<u>772,764</u>	<u>123,191</u>	<u>-</u>	<u>895,955</u>
Total capital assets, being depreciated	<u>18,172,872</u>	<u>123,191</u>	<u>-</u>	<u>18,296,063</u>
Less accumulated depreciation for:				
Buildings	(2,305,473)	(220,432)	-	(2,525,905)
Improvements other than buildings	(7,731,036)	(693,587)	-	(8,424,623)
Equipment	<u>(630,972)</u>	<u>(61,391)</u>	<u>-</u>	<u>(692,363)</u>
Total accumulated depreciation	<u>(10,667,481)</u>	<u>(975,410)</u>	<u>-</u>	<u>(11,642,891)</u>
Total capital assets being depreciated, net	<u>7,505,391</u>	<u>(852,219)</u>	<u>-</u>	<u>6,653,172</u>
Total capital assets, net	<u>\$ 8,144,327</u>	<u>\$(852,219)</u>	<u>\$ (31,940)</u>	<u>\$ 7,260,168</u>

6. LONG-TERM DEBT

General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds issued in prior years was \$6,965,000. During the year, general obligation bonds totaling \$2,390,000 were issued to partially refund the Series 2000 general obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Refunding	3.50 - 4.20%	\$ 2,950,000
Facility improvements	4.60 - 5.50%	960,000
Refunding	2.05 - 3.60%	<u>2,345,000</u>
		<u>\$ 6,255,000</u>

COTTONWOOD HEIGHTS PARKS AND RECREATION SERVICE AREA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. LONG-TERM DEBT (CONTINUED)

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$ 520,000	\$ 241,293	\$ 761,293
2007	540,000	219,648	759,648
2008	560,000	196,785	756,785
2009	585,000	172,820	757,820
2010	610,000	147,586	757,586
2011-2015	<u>3,440,000</u>	<u>337,996</u>	<u>3,777,996</u>
 TOTAL	 <u>\$ 6,255,000</u>	 <u>\$ 1,316,128</u>	 <u>\$ 7,571,128</u>

Advance Refundings

In 2005, the Service Area issued \$2,390,000 of general obligation refunding bonds. A portion of the proceeds of the bond issue were placed in an irrevocable trust for the purpose of generating resources for future debt service payments of \$2,537,755 of the General Obligation bonds, Series 2000. As a result, the portion of the bonds refunded is considered to be defeased and the liability was removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by \$253,385. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

In 1998, the Service Area issued \$3,165,000 of general obligation refunding bonds. A portion of the proceeds of the bond issue were placed in an irrevocable trust for the purpose of generating resources for future debt service payments of \$3,689,590 of the General Obligation Bonds, Series 1998. As a result, the portion of the bonds refunded is considered to be defeased and the liability was removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by \$341,097. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

Changes in Long-Term Debt

Long-term debt activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
General obligation bonds	\$ 6,510,000	\$ 2,390,000	\$ (2,645,000)	\$ 6,255,000	\$ 520,000
Less deferred amounts:					
For issuance discounts	-	(7,850)	785	(7,065)	-
On refunding	(147,530)	(253,385)	56,843	(344,072)	-
Total bonds payable	6,362,470	2,128,765	(2,587,372)	5,903,863	520,000
Capital leases	-	55,544	(11,703)	43,841	13,352
 TOTAL LONG-TERM DEBT	 <u>\$ 6,362,470</u>	 <u>\$ 2,184,309</u>	 <u>\$ (2,599,075)</u>	 <u>\$ 5,947,704</u>	 <u>\$ 533,352</u>

COTTONWOOD HEIGHTS PARKS AND RECREATION SERVICE AREA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. CAPITAL LEASES

The Service Area has entered into a lease agreement as lessee for financing the acquisition of equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The asset acquired through the capital lease is as follows:

Asset:	
Equipment	\$ 55,544
Less: accumulated depreciation	<u>(15,234)</u>
TOTAL	<u>\$ 40,310</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2005, were as follows:

Year Ending December 31,

2006	\$ 16,027
2007	17,484
2008	<u>15,068</u>
Total minimum lease payments	48,579
Less: amount representing interest	<u>(4,738)</u>
Present value of minimum lease payments	<u>\$ 43,841</u>

8. TAX ANTICIPATION NOTES

During 2005, the Service Area issued \$600,000 in tax anticipation notes due December 31, 2005, bearing an interest rate of seventy-five percent of prime rate. As of December 31, 2005, there was no balance outstanding on the notes.

Subsequent to December 31, 2005, the Service Area issued \$988,110 in tax anticipation notes, due December 31, 2006, bearing an interest rate of 3.75%.

9. RETIREMENT PLANS

Plan Description

The Service Area contributes to the Local Governmental Noncontributory Retirement System, which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

COTTONWOOD HEIGHTS PARKS AND RECREATION SERVICE AREA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. RETIREMENT PLANS (CONTINUED)

Plan Description (continued)

The System is established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1 (800) 365-8772.

Funding Policy

For Plan members in the Local Governmental Noncontributory Retirement System the Service Area is required to contribute 11.09% for 2005 of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Service Area contributions to the Noncontributory Retirement System for December 31, 2005, 2004 and 2003 were \$76,611, \$67,953, and \$57,189, respectively. The contributions were equal to the required contributions for each year.

The Service Area also participates in the State Retirement Systems 401(k) Plan. Employee contributions to this Plan were \$69,738, \$58,014, and \$51,757, and the service area contributed \$29,327, \$24,852, and \$22,302 for the years ended December 31, 2005, 2004 and 2002 respectively.

10. DEFERRED COMPENSATION PLAN

The Service Area offers certain employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Utah Retirement Systems have adopted Governmental Accounting Standards Board Statement 32 (GASB No. 32), *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This resulted in reporting the 457 Plans as a "Trust Fund" rather than as an "Agency Fund". Currently all of the assets and income of the 457 Plan are held in trust by the Utah Retirement Systems for the exclusive benefit of the participants or their beneficiaries rather than as assets of the Service Area. These assets are no longer reported in the Service Area's financial statements at December 31, 2005.

COTTONWOOD HEIGHTS PARKS AND RECREATION SERVICE AREA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. COTTONWOOD HEIGHTS RECREATION CENTER FOUNDATION

The Service Area has established the Cottonwood Heights Recreation Center Foundation, a non-profit corporation, for the purpose of receiving tax-exempt charitable contributions, within the meaning of Section 501(c)(3) of the Internal Revenue Code. The foundation received \$57,819 in contributions and had \$37,444 in disbursements during the fiscal year 2005. Operating activity for the foundation has been included in the Service Area's financial statements.

12. LIFE INSURANCE – DEFERRED COMPENSATION PLAN

To provide incentive to employees to remain with the Service Area long-term, the Service Area offers certain key management employees an additional deferred compensation plan. The Service Area pays the premiums on whole life insurance contracts, of which the Service Area is beneficiary, to help fund the obligation under this plan. These whole life annuities will fund these additional retirement benefits for the employees. As of December 31, 2005 the cash surrender value of life insurance contracts held was \$127,509, which exceeded the liability accrued with respect to the obligation under this plan. The cash surrender value of life insurance contracts, net of the accrued obligation of \$63,350 was \$64,159 at December 31, 2005.

13. DEFERRED REVENUE

During 1994, the Service Area entered into a contract with Salt Lake County whereby the County committed to help fund the construction of certain facility improvements by prepaying for future County usage of the facility. Per the agreement, the County agreed to disburse amounts over a three year period to the Service Area upon the availability of funds, as follows: \$300,000 during 1995, \$150,000 during 1996, and \$150,000 during 1997, totaling \$600,000. Funds received were recorded as deferred revenue.

According to the agreement, the County's anticipated future benefit of the facilities should last for ten years after the completion of the facility improvements. The improvements were completed during December 1996. At December 31, 2005, the deferred revenue balance under this agreement was \$60,000.

At December 31, 2005, \$350 of rental revenue was prepaid and is also deferred.

14. RISK MANAGEMENT

The Service Area is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Service Area participates in the Utah Local Government Trust (a public entity risk pool).

15. SUBSEQUENT EVENT

Subsequent to year end, the Service Area, Cottonwood Heights City and Salt Lake County entered into an inter-local agreement. The agreement calls for the Service Area to contribute \$100,000 towards the completion of a park that will be owned by Salt Lake County. The Service Area is to pay \$50,000 on or before December 31, 2008 and \$50,000 on or before December 31, 2009.



PINNOCK, ROBBINS, POSEY & RICHINS

Certified Public Accountants • A Professional Corporation

Ronald D. Robbins, CPA
David T. Posey, CPA
Roger O. Richins, CPA
James R. Beaudoin, PTS, CFP, CPA
Wade K. Watkins, CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Cottonwood Heights Parks and Recreation Service Area
Salt Lake City, Utah

We have audited the financial statements of Cottonwood Heights Parks and Recreation Service Area, as of and for the year ended December 31, 2005, and have issued our report thereon dated March 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Cottonwood Heights Parks and Recreation Service Area's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Area's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of Cottonwood Heights Parks and Recreation Service Area's management, Board of Trustees, and applicable federal and state agencies. However, this report is a matter of public record and its distribution is not limited.

Pinnock, Robbins, Posey & Richins

March 31, 2006



PINNOCK, ROBBINS, POSEY & RICHINS

Certified Public Accountants • A Professional Corporation

Ronald D. Robbins, CPA
David T. Posey, CPA
Roger O. Richins, CPA
James R. Beaudoin, PFS, CFP, CPA
Wade K. Watkins, CPA

INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

To the Board of Trustees
Cottonwood Heights Parks and Recreation Service Area
Salt Lake City, Utah

We have audited the financial statements of Cottonwood Heights Parks and Recreation Service Area, for the year ended December 31, 2005 and have issued our report thereon dated March 31, 2006.

Our audit included testwork on the Service Area's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Guide, including:

Public Debt
Purchasing Requirements
Truth in Taxation and
Property Tax Limitations

Special District Requirements
Cash Management
Budgetary Compliance
Other Compliance Requirements

The Service Area did not receive any major or non-major state assistance programs from the State of Utah during the year ended December 31, 2005.

The management of Cottonwood Heights Parks and Recreation Service Area is responsible for the Service Area's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Service Area's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of non-compliance with the requirements referred to above.

In our opinion, Cottonwood Heights Parks and Recreation Service Area, complied in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

This report is intended for the use of Cottonwood Heights Parks and Recreation Service Area's management, Board of Trustees, and applicable state and federal agencies. However, this report is a matter of public record and its distribution is not limited.

Pinnock, Robbins, Posey & Richins

March 31, 2006